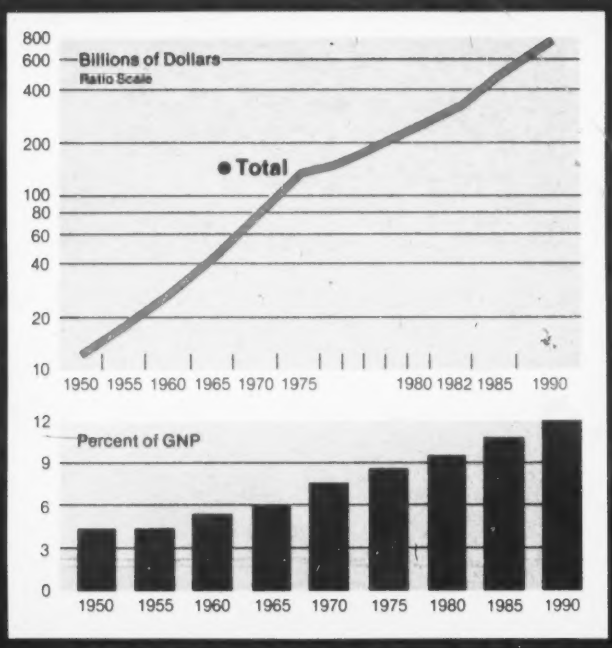
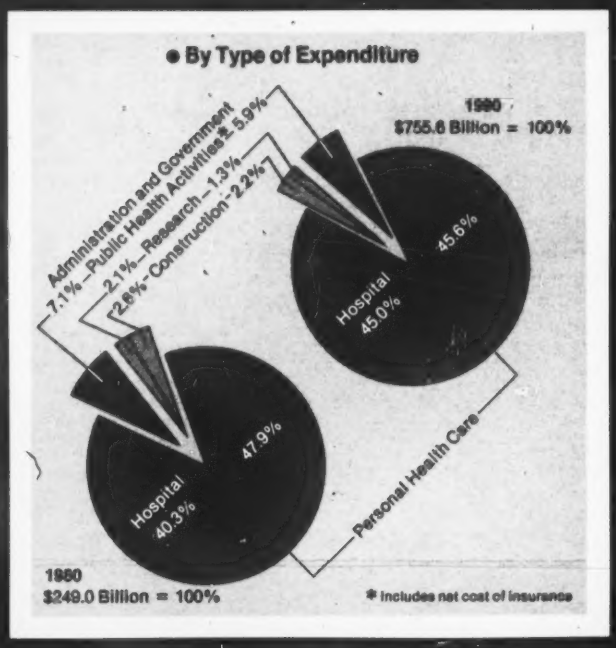
The Conference Board

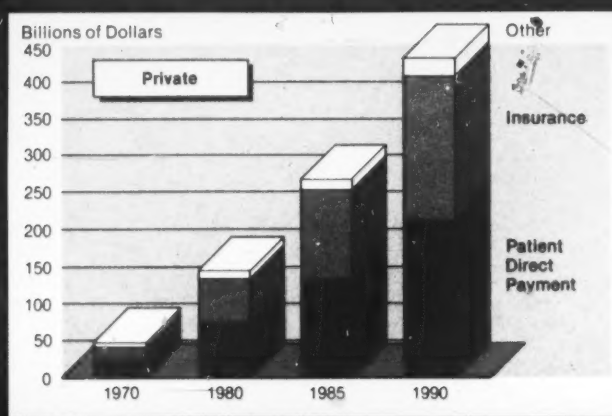
Health Care Expenditures
Past, Present, and Future

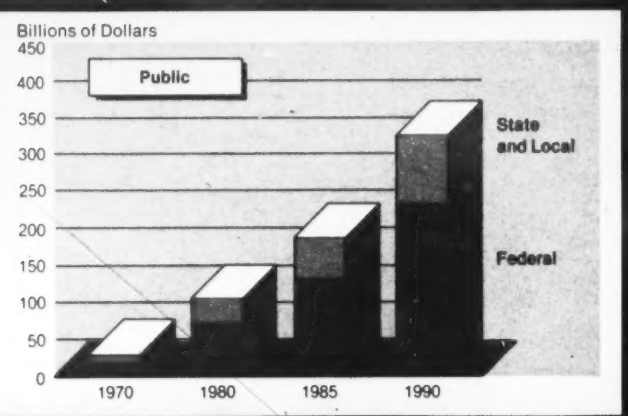
Economic Road Maps
Nos. 1964-1965
December, 1983

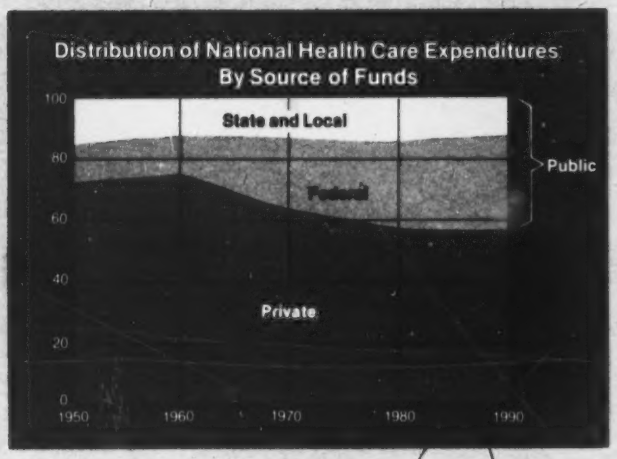
The nation's medical care bill rose dramatically over the last three decades from $13 billion in 1950 to $322 billion in 1982, and is projected to more than double between now and 1990 (to $756 billion). Health care spending has also claimed an ever increasing share of the Gross National Product, going from 4.4% in 1950 to 10.5% in 1982. According to the Health Care Financing Administration, it will consume roughly 12% of economic output in 1990. The problem of escalating health care costs is hardly new. Ever since the early 1960's, these costs have been growing at a rate substantially higher than that of the economy as a whole. Even though the medical expenditure growth rate is expected to decelerate in the years to come, it will continue to outpace the growth of GNP.

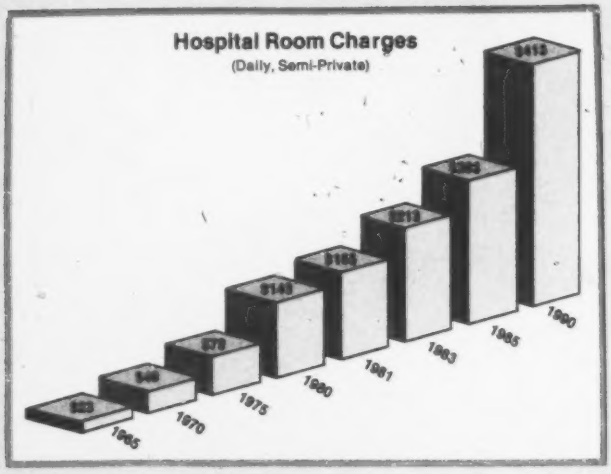


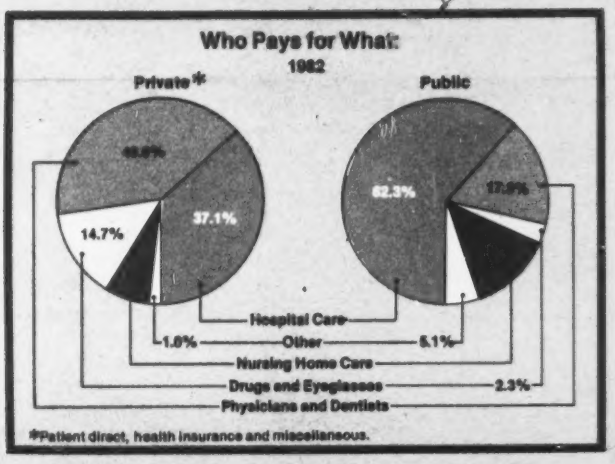


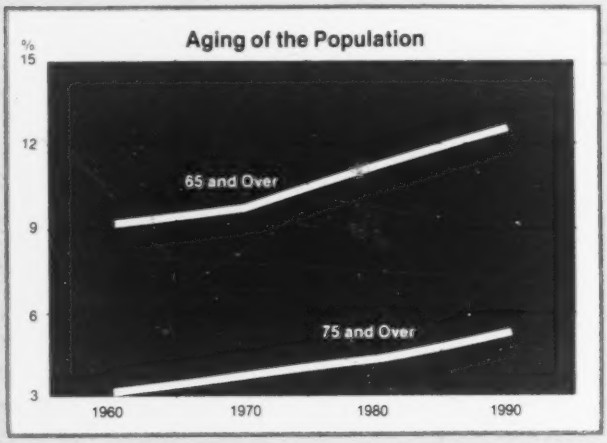


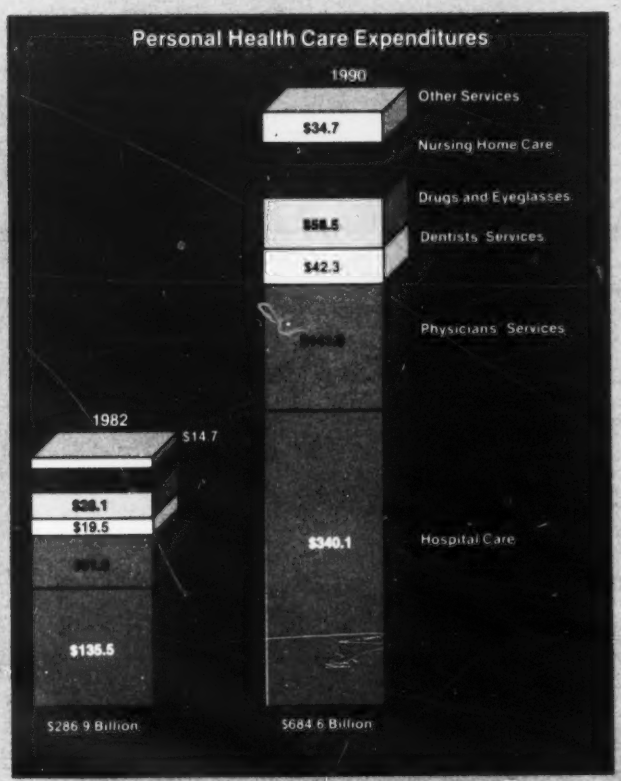








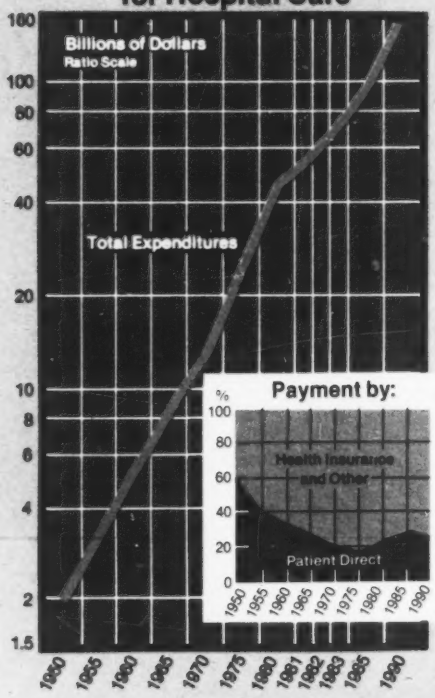




What caused health care costs to rise so rapidly? Inflation is one important factor. In 1982, a year of economic recession and declining inflation rates, the health care services component of the CPI rose twice as fast as the rest of the index. The introduction of new technology, leading to innovative but costly treatments, is also a factor. Today many illnesses can be diagnosed but not necessarily cured; however, maintenance programs and life-support systems can keep patients alive for long periods of time. The aging of the population, especially the rapid increase in the number of persons over age 75—a group requiring considerably more medical care than the rest of the population—was also instrumental in the rapid cost increase.

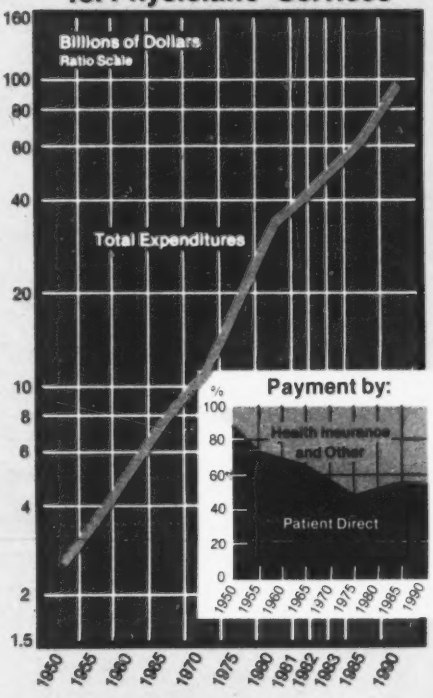
Another factor is the financing and purchasing of health care services. Last year, consumers paid only one-third of personal health care expenses directly, while two-thirds of the cost was financed by third parties—namely, private health insurers, government agencies, philanthropic organizations and industry. Since consumers are insulated to a large degree from actual costs, those costs have only a limited impact on their demand for health services. On the supply side, the system whereby suppliers are reimbursed for services billed tends not to encourage provision of health care in the least expensive manner.

Private Expenditures for Hospital Care



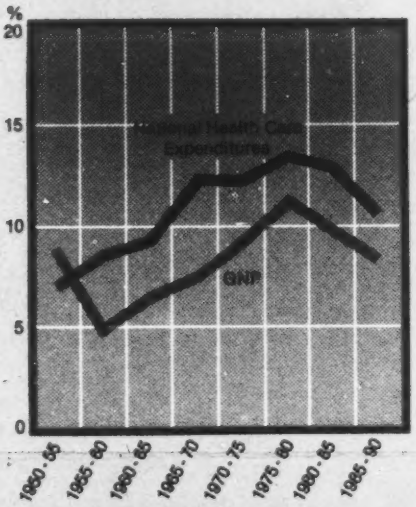
Personal health care, which accounted for 90% of all health care expenditures, was $287 billion in 1982 (the remaining 10% was used to finance administration and net cost of insurance, as well as government public health agencies, noncommercial health research, and construction of medical facilities). Of this amount, roughly half went for hospital care; patients paid about 12% of the $135 billion in hospital costs, with the balance divided between private health insurers (35%) and the government (53%). Fees for physicians' services were $62 billion, accounting for 22% of personal health care expenditures. But the influence of physicians as to where and how the health care dollar is spent is paramount; they not only decide whether hospitalization is necessary, but they also determine the length of

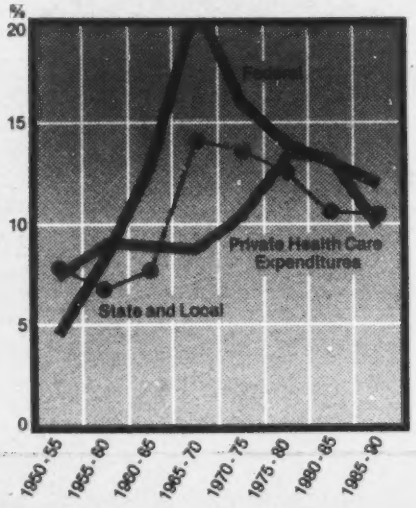
Private Expenditures for Physicians' Services

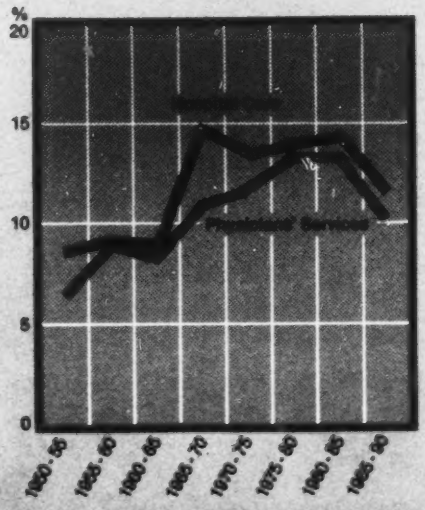


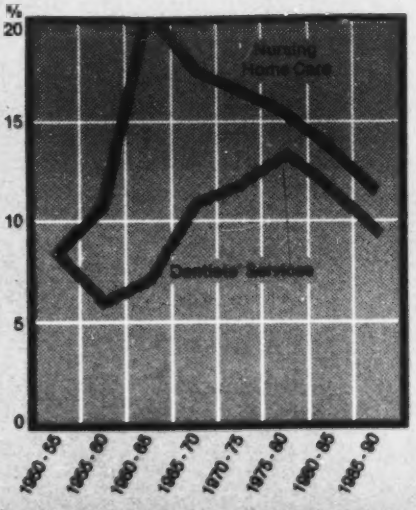
Growth Rates in Health Expenditures

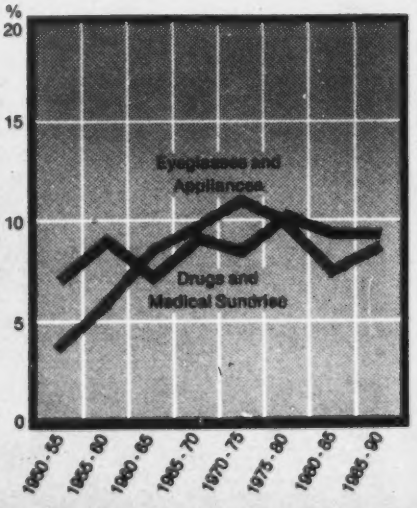
(Average Annual Percent Change)



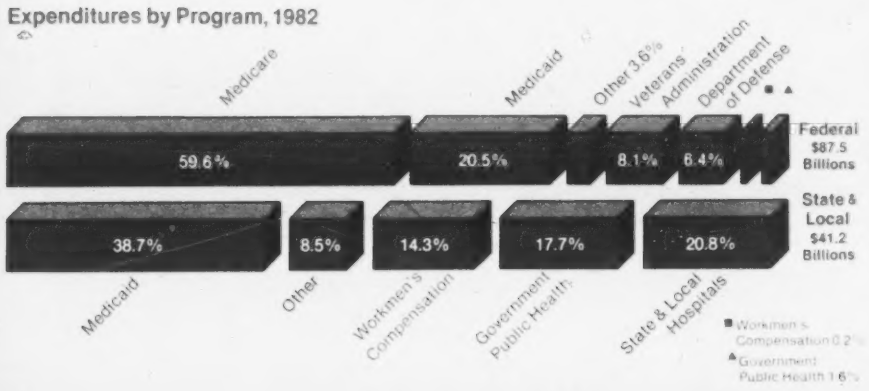


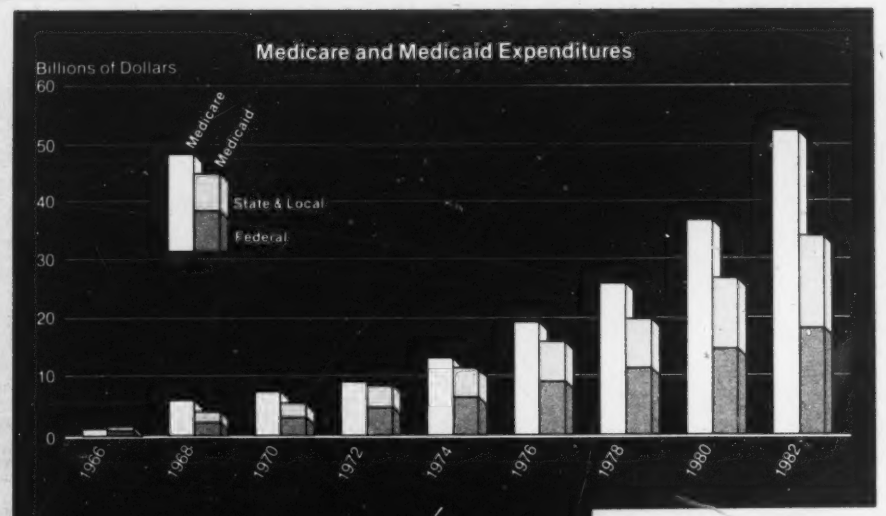


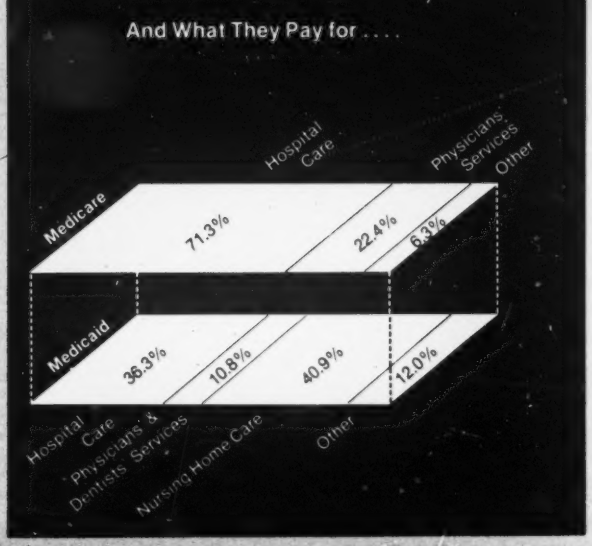




Public Programs Health Care Expenditures





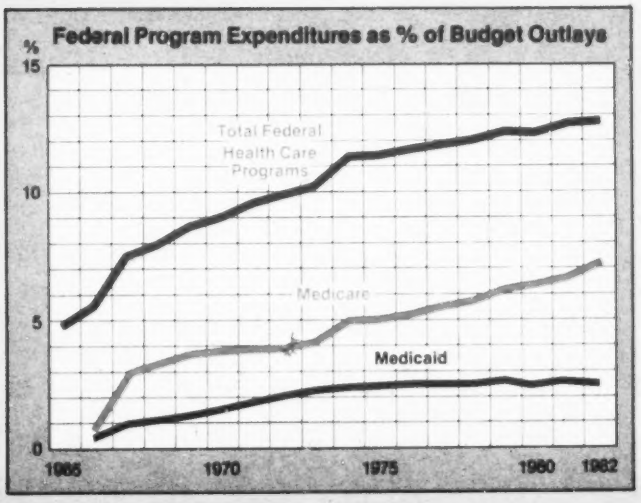


stay, number and type of tests and other services performed, and drugs prescribed.

The share of the personal health care bill paid for by individuals has declined sharply over the years (from 50% in 1965 to 32% in 1982), but it is expected to remain virtually unchanged for the rest of the decade. All third parties combined financed 68% of personal health care outlays in 1982, covering 88% of hospital services, 63% of physicians' services, and 43% of the remaining health services. Government programs funded $129 billion (or 42% of the total) of the expenditures for health services and supplies in 1982. This contrasts sharply with 1965—the year before the enactment of Medicare and Medicaid programs—when 23% of outlays were paid for by the government. Outlays for Medicare and Medicaid, the two largest government programs were $86 billion in 1982. They account for almost three quarters of all public spending, and 29% of all personal health care in the nation.

Eva Culen

Sources: Health Care Financing Administration; U.S. Department of Labor; The Conference Board.



ECONOMIC ROAD MAPS

Published by
THE CONFERENCE BOARD, INC.
845 Third Avenue, New York, N.Y. 10022
THE CONFERENCE BOARD OF CANADA